RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 20, 1989 LETTER 1026

**Sept. 8 2709.54; PTI 3222; A-D Ratio -5.88**
**Sept. 15 2674.58; PTI 3217; A-D Ratio -6.42**
**Dow Yield: 3.76; Dow P/E: 11.8; DowPow: 1096**
**Dow Book Value: 1075; Dow 200-day MA: 2405**
**Percentage of Undervalued Blue-chips: 14%**

**THE PICTURE:** Currently, there's widespread talk of an impending correction. Joe Granville writes about the "internal top" having already been formed in early August, at which time daily new highs on the NYSE peaked at over 300. The dramatic drop-off in new highs, says Joe, bespeaks a correction (Joe expects "a 200 to 400 point Dow drop between now and November"). Merrill Lynch's technical analyst, Steve Shoben, expects a decline here, then a rally maybe to new highs, then a more important correction to occur around October. Peter Eliades (of cycle fame) expects an important top to form between now and January.

The picture today (as I see it) is far more difficult to read than it was in 1987. On the plus side, today most people still have '87 crash memories fresh in their minds, and that memory militates toward caution. Second, many more analysts are watching the market (and much more skeptically) than was the case in '87. Finally, the yield on the Dow is now 3.70%, a good bit higher than it was in '87, and the Dow P/E ratio is now 12.1 against a sky-high P/E ratio of 21 in 1987. (Note: Actually, the Dow P/E ratio is around 3.2 but extras from Texaco have boosted the official dividend total. The S&P dividend yield is down to 3.22%.)

On the negative side, we have the rocket-rise of the airlines in 1989, a rise so wild that I believe it will go down in Wall Street history as a true "market mania." Furthermore, as seen on the accompanying Mansfield weekly chart, the Transports have assumed the pattern of a dangerous parabolic rise. It is notable that the Utility Average has never bettered its 1987 bull market high of 227.83. I might add that it's most unusual (and negative) to see the Utilities stubbornly refuse to confirm new highs in the other Averages. We also have market momentum and daily new highs dropping off sharply here -- within a few percentage points of the '87 peak. Finally, it bothers me to see my proprietary DowPow barely able to move out of the congestion area, an area not far from the '87 crash bottom.

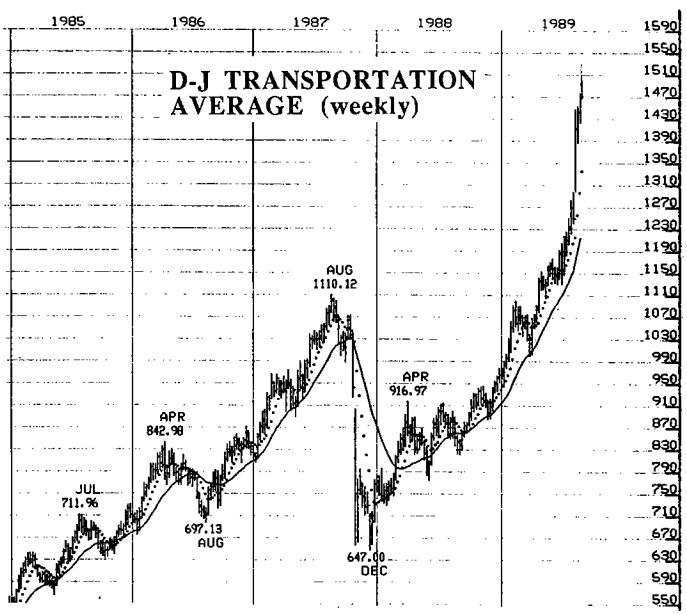
In the last Letter I expressed the opinion that the entire area since the '87 peak was part of one massive, convoluted top, a top punctuated by an unprecedented crash. Sound impossible? Perhaps, but I asked Ned Davis to run off a semi-logarithmic chart (a ratio chart showing the percentage of change) of the Dow to illustrate this point (chart on page 2). I have marked off the section which I believe represents the top area for the bull market. And when you view the picture on a long-term semi-log chart, the "massive top" thesis doesn't appear to be so outlandish.

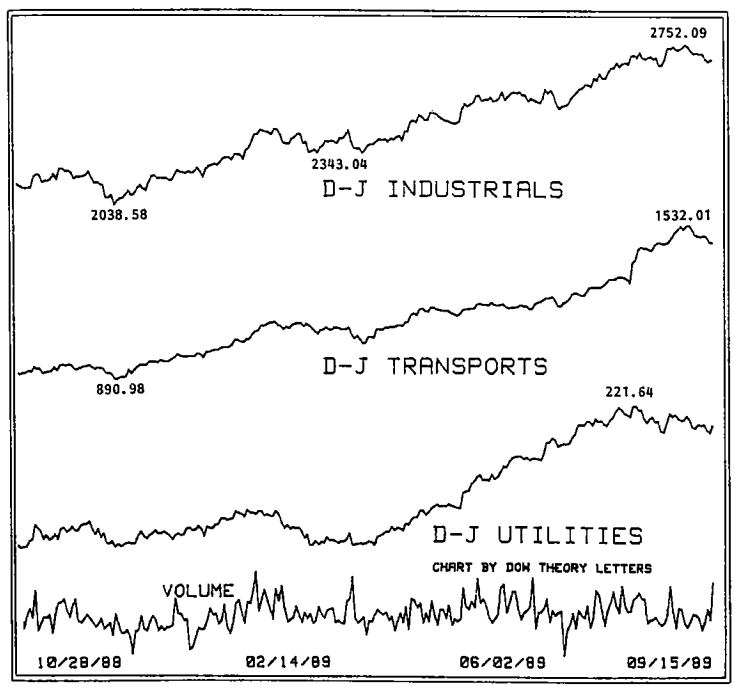
As stated before, I base my massive-top concept on the fact that the whole period from August 1987 to the present was characterized by low valuation for the market. Even at the crash low, the yield on the Dow climbed to only 4% while most of the time the Dow yield fluctuated between 2.6% and 3.4%.

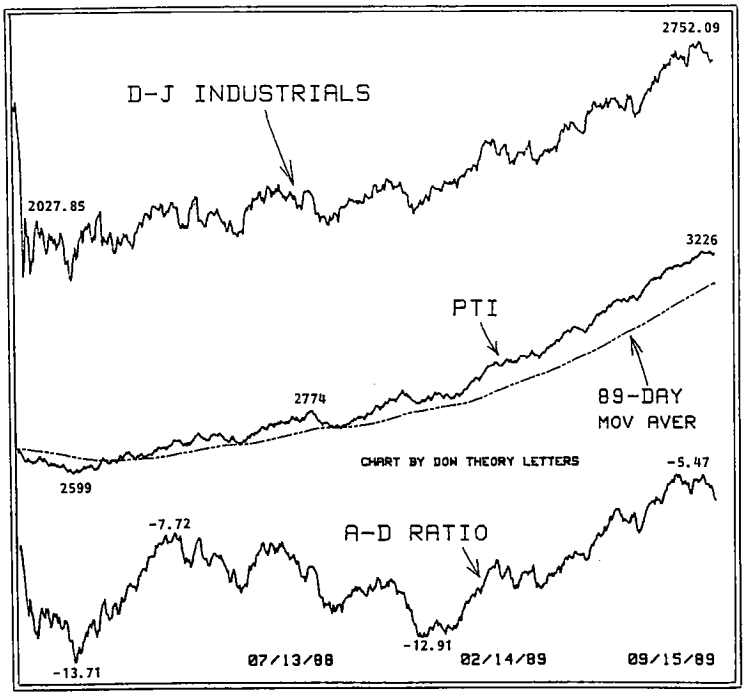
Each bull market is different, and each bear market is different. And each bull and bear market ends in a different way. Most of the analysts I respect do not think that this bull market is over. Most believe that regardless of the weakness which may now materialize, the bull is fated to rise to new heights during the final days of 1989 and into 1990.

As for me, I have no preconceived notions. I feel it's a very tough call from here, and I'm going to rely heavily on my PTI to guide us through the maze. The 1987 crash phase lasted only a few months, and for this reason the PTI did not get a chance to correct in a major way. On my long-term PTI chart the 1987 crash episode appears on the PTI as just a downward blip. In fact, the last true bear market action in the PTI occurred during 1973-74.

If you're a market technician or even a market historian, you must have noticed that over the last few years many of the time-honored,






classical "buy/sell" devices have not worked. The "three-step-and-stumble" sell signal failed to work, the Fed Funds/T-bill ratio sell signal did not work, the General Motors sell signal did not work, the lagging A-D ratio didn't cause the market to self-destruct, the collapse in daily new highs has not toppled the market structure.

Furthermore, it's strange, but there is no real consensus about the market today. Check 25 market analysts and you'll get 25 different predictions about the market ranging from black pessimism to unshakable optimism. All of which means that, unfortunately, you can't come up with a "contrary opinion" postion on this market.

This is the area where my PTI assumes its greatest value. The PTI does not depend on any single technical indicator or read-out. The PTI doesn't care about contrary opinions, guesses, projections, or estimates. The PTI calculates the plurality of eight technical indicators, and it thereby eliminates the danger of relying on any single indicator (or on any two or even three indicators).

What about the D-J Averages? So far, there have not been any of the dangerous divergences or non-confirmations that so often accompany important tops. But could this be the developing pattern? The daily new highs top out on August 1. The advance-decline ratio tops out on September 1 along with the Industrial and Transportation Averages. The market turns decidedly weak with the A-D ratio dropping dramatically. Then a new rally materializes, but this time the A-D is sluggish, new highs are scarce, and the Transportation Average refuses to confirm a new high in the Dow. Following the non-confirmation, the bear takes over with a vengeance.

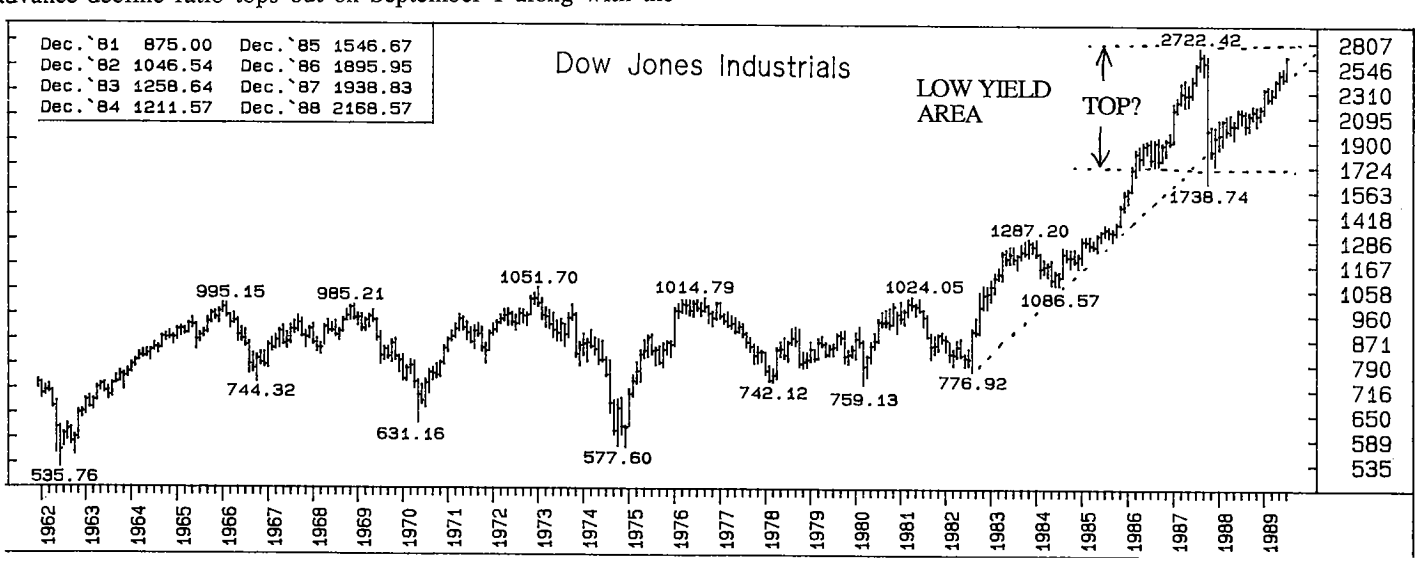
What about the PTI? Somewhere ahead, some place, some time, a major decline in the PTI will materialize. and the next primary bear market will be underway. That could well be "the BIG bear market" that so many of us old timers have been worried about. Will the bear market start here? Or will it start from some much higher level? I don't know and neither does anyone else. But it's been 15 years since the last major bear market, at least one that shows up in my PTI, and as trends go, that's a long time.

If and when the PTI turns down and breaks its 89-day moving average, we could be facing a bear market correction of the entire rise since 1974. That will be the decline that will make or break investors. That will be the bear market that we must, at all costs, avoid.

Comment: Often a market will turn down when the most persistently powerful indicators finally give up the ghost. The three most persistently powerful indicators during the last year have been (1) the D-J Transportation Average, (2) daily new highs on the NYSE, and (3) the daily 15 most-active stock list on the NYSE. Therefore, indications of important weakness would be (1) a persistent decline in the Transports, (2) daily new lows expanding above new highs, and (3) more of the 15 daily most-actives declining than advancing.

On September 13 and 14 the $200 billion junk bond market was panicked by the news of trouble at Campeau (whose bonds collapsed with Allied's 11 1/2% bond yielding an astounding 46%). On Sept. 14 it was reported that "liquidity dried up" in the junk bond area -- in other words, there were no bids for many junk bonds. As I see it, the junk bond situation is just another shaky brick in the whole US credit structure. Included in that structure is the giant consumer debt, the massive federal debt, the inflated mortgage market, the S&L debt, the HUD debt, the farm debt, and the enormous and uncollectible South American debt. Add to all that the banking industry consisting of 1,000 banks with $100 billion in assets currently on the regulators' "problem list." It's not only the quantity of this debt that is so mind-boggling, it's the quality of the debt.

Eventually, all debt is (1) paid off, (2) inflated away, (3) reneged on via bankruptcy, or (4) refinanced -- which means payment put off to a later date. Up until recently, No. 2 has been the most popular route. But today No. 3 and No. 4 seem to be coming to the forefront. When the bear ultimately takes over, No. 3 will be the big winner, and No. 4 will be increasingly difficult to pull off.



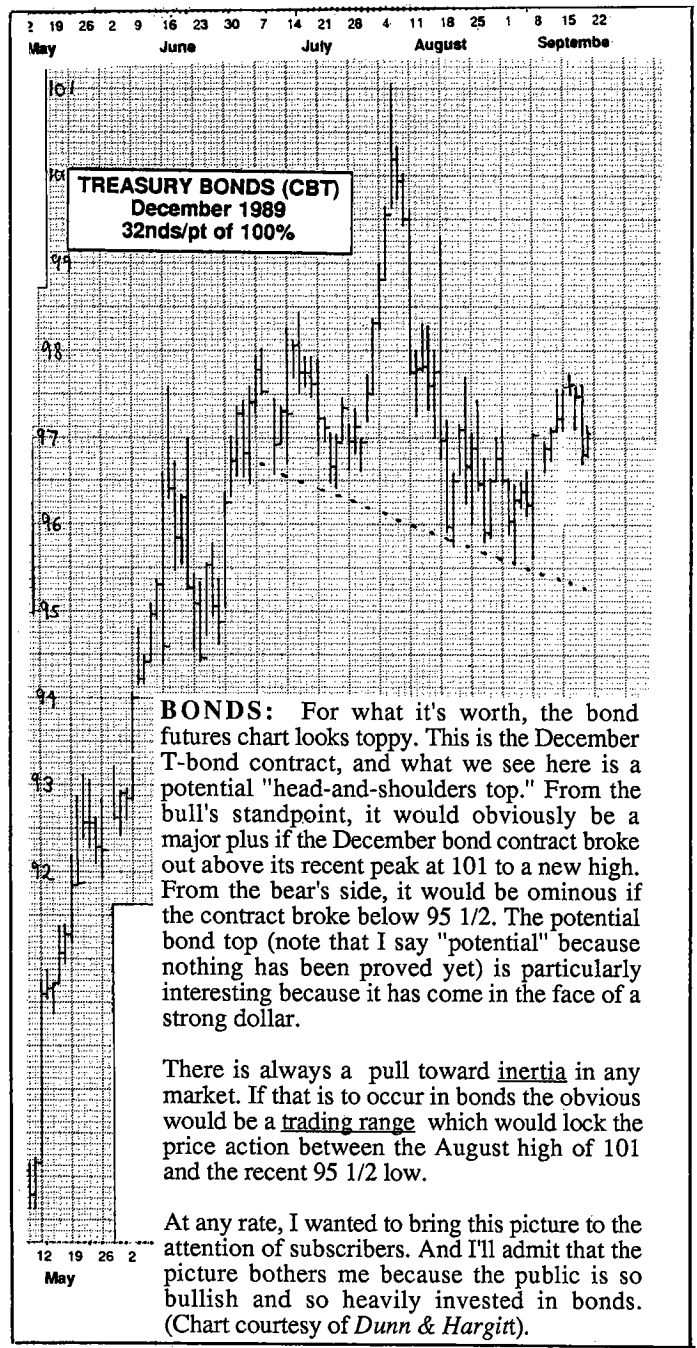
**INVESTMENT POSITION:** In a recent Letter I advised, "At this point, don't do something, just stand there." Well, since then I've become less enamored of the markets -- all of them. I've already revealed my own position which is largely money-market funds. I have a few no-load mutual funds and a few bonds but by far the biggest percentage of my money is sitting in tax-free muni cash funds. I guess I just don't have an urge to do anything brilliant at this time.

The stock market is in a high-risk area, bonds have stalled amid bullish predictions -- and money-market funds are still offering attractive yields. But at this point I must admit that I don't have any signals, guesses, or intuitions to cause me to say, "Move!" So I continue to say, "Watch it, be careful, and unless you have come up with a brilliant plan of your own, you might follow the conservative posture of watchful waiting from a position of safety."

The T-bond futures contract looks toppy, and this could be a problem for the markets. Even so, the weak picture in the bonds is working against a strong dollar (which ordinarily would bolster the bonds).

The bull is in the box. But this is no happy Ferdinand, sniffing the flowers. This is a shaking bull, shaking because there are a number of items that are worrying him.

Comment: A lot of stocks have topped out or are stalling here. The 30 Dow stocks are typical, but the following Dow stocks are still bullish; in other words, they are holding above their long-term moving averages and also showing positive relative strength: Aluminum Co.; Amer. Express; Amer. Tel.; Boeing; Coca-Cola; DuPont; GM; Int'l Paper; Philip Morris; Proctor & Gamble; Texaco; United Tech.; Woolworth.




**BONDS:** For what it's worth, the bond futures chart looks toppy. This is the December T-bond contract, and what we see here is a potential "head-and-shoulders top." From the bull's standpoint, it would obviously be a major plus if the December bond contract broke out above its recent peak at 101 to a new high. From the bear's side, it would be ominous if the contract broke below 95 1/2. The potential bond top (note that I say "potential" because nothing has been proved yet) is particularly interesting because it has come in the face of a strong dollar.

There is always a pull toward inertia in any market. If that is to occur in bonds the obvious would be a trading range which would lock the price action between the August high of 101 and the recent 95 1/2 low.

At any rate, I wanted to bring this picture to the attention of subscribers. And I'll admit that the picture bothers me because the public is so bullish and so heavily invested in bonds. (Chart courtesy of *Dunn & Hargitt*).

**WAR:** Fifty years ago (Sept. 1) Germany attacked Poland and WW II was underway. Over the past few weeks *Time, Newsweek,* and many other publications featured major articles on WW II. For what it's worth, here are just a few of my own personal memories.

In my first year (1942) at Rutgers I signed up for the Enlisted Reserve Corps. That government-sponsored organization was supposed to allow us to finish college. But toward the end of my freshman year I got itchy, and I asked to go on active duty (over my parents' violent objections). Students in the ERC were told that they could pick their branch of the service. I picked the Army Signal Corps. The Army obliged by sending me directly to the Infantry. I spent three of the hottest and toughest months of my life in infantry basic training at Camp Wheeler, Macon, Georgia (July through September). I then transferred to the Air Force (again amid violent objections from my parents, since in the early days of the War it was the Air Force flyers who were suffering the big casualties). I asked for Bombardier-Navigator training, and for once they gave me what I wanted.

(As an aside, later when the war was over I learned that my infantry outfit,the Ninth Battalion out of Wheeler, had landed at Anzio on D Day. On that first day at Anzio half of the guys were killed. Many fine men, men I knew well, died at Anzio.)

I graduated from Cadet school as a Bombardier-Navigator. In late-'43 I went overseas with my six-man crew. We were in B-25 medium bombers (the "Mitchell Bomber"). We were told that once overseas, we'd get "a few months of intensive training and then we'd be ready for combat."

Our crew landed in Naples. The harbor of Naples was filled with the hulks of sunken and half-sunken ships. Soldiers were riding around the city in jeeps with Tommy guns cradled in their laps. In the back alleys of Naples children were begging for candy and cigarettes. Trucks and motorcycles were tearing about in all directions. Chaos reigned. And it was wet and cold -- bitter cold. My group was camped outside an ancient Italian church, and we lived in tents. My rank was flight officer, which made no difference. It was outside in tents for all of us, and there weren't enough heavy blankets to go around.

The Army had issued a limited number of sleeping bags, and I was told that light blankets would have to do for the new guys. I spent the coldest days (actually nights) of my life in Naples. One week after we arrived in Italy we were told that "casualties were higher than expected," and we would be going into combat immediately. We headed for Senagalia, home of the mediums.

The day we arrived at the air field our Commanding Officer gave us a little greeting speech. "You are all officers, so I'll address you as such. Each evening your mission instructions for the next day will be posted. We take off early in the morning. Now mark this down, gentlemen. I don't give a damn what you do at night, the night is yours. But any officer not at his post and ready for combat by 5AM in the morning will be court marshalled. Count on it. And don't tell me that you broke a leg and can't fly. If you break a leg, gentlemen, you'll fly next morning -- in a cast or on a stretcher. That's it. Good luck."

The next day was my initiation to combat. I had a Colt 45 on my hip, a 32 Beretta in a leg holster, a survival kit, and two parachutes, one in a back pack and the other in a chest pack (the chest pack was in case the back pack didn't open or was shot away). Our squadron of B-25s with P-38 fighter cover headed north. We had orders to strafe and bomb "anything that moved unless it had an American flag on it." My plane was armed with four fixed forward-firing 50-caliber machine guns mounted on each side of the nose, two more machine guns in the top turret, two more in the Sperry Ball Turret under the plane, two in the tail turret, and a flexible 50 in the nose which I handled. We also carried a rack of 100-pound bombs. We were a flying armory.

Our squadron flew north along the western coast of Italy at about 9,000 feet. We neared the combat line. Suddenly I saw what appeared to be whisps of cotton appearing all around the plane. I was puzzled. Then there was a sound like gravel hitting the side of the plane. In a flash of belated recognition I realized that those pretty cotton whisps were flack explosions coming from the greatly-feared German 88s (anti-aircraft). I turned on my intercom, which went to the whole crew. "Flack at 12 o'clock, flack at 3 o'clock, flack all over the place," I shouted. My pilot, Art Herron, from Grand Rapids, Michigan, was as cold-blooded a fellow as I've ever met. Nothing, absolutely nothing bothered this guy. And I'll never forget his answer. "Shut up, Russell. There's not a damn thing I can do about it. I see it as well as you do. That's what this war is about. We're trying to kill them and they're trying to kill us. Check out your 50s. We're going down to strafe."

Below us was a flack barge. Three of our planes peeled off and headed for the barge. For some reason, maybe they were asleep, the barge didn't see us. We hit the barge with 27 50-caliber machine guns firing for all they were worth. The barge literally came apart -- it disintegrated before my eyes. I saw men swimming, I saw the water boiling, and then what was left of the barge sank beneath the Adriatic.

Art talked on the radio to some of the other planes and our flight of three joined the squadron and headed north. "We're going to look for some more flack barges," Art said, "and maybe we're going to have some fun. We're going to buzz Venice." Twenty minutes later I could see the city Venice in the distance. My heart jumped. This was the fabled Venezia, a city I had read about in my history books, and now we were approaching it like nine birds of prey. We were flying low over the water at a height of maybe 50 feet. The backlash from our props was actually stirring up the ocean below.

Italian sailboats and fishing boats were all about. We were so low I could actually see the eyes of the fishermen, which were wide with fear. Our Pratt and Whitney engines were probably the loudest of any plane in the air, and they made a thunderous crackling sound. As we roared toward Venice, many of the boatmen jumped overboard, obviously afraid that we would strafe them. In another minute we were over Venice, and I could see the frightened eyes of the Italians below, looking up as nine bombers and six fighters careened over their heads, barely clearing the tops of the buildings.

"This will give 'em something to think about," Buhrmaster, our tail gunner roared (he was the only man I ever met who actually loved combat). We did a 180-degree turn and came back once more over the city -- this time at about 500 feet. Below I could see people scurrying for cover. They obviously didn't know what to expect. I had both hands on the handles of my machine gun, and I noticed that my hands were "glued" to the tigger guard. They looked white, almost frozen. It was fear. I expected to see anti-aircraft, but we were flying too low for that. I was also experiencing the excitement of having been in combat for the first time and coming out of it alive. "This is it," I thought. "I'm finally part of the war. But I wonder whether I'll ever get out alive." As I flew mission after mission I was to have those thoughts many times. But that was the first day of the real war for me. It was a day I'll never forget.

**NOTES & QUOTES:** Help! I'm suffering from guilt. The guilt comes from my inability to answer all the letters that arrive here each day. I get a dozen or more letters in each mail, and many of the letters ask questions or make requests which should be answered. But I can't answer all your letters and also do a decent job on these reports. I turn out six concentrated pages of writing every two weeks (compare this with other services), and that takes a lot of time, thinking, and energy. If I also answered a dozen letters each day I wouldn't be able to do a decent job on *Dow Theory Letters*. It's as simple and frustrating as that.

So keep your letters coming, particularly those with info or charts or comments. But please don't be insulted if I don't answer you. Many thanks.

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Ego: Last year Canadian Robert Campeau took over Federated Stores, thereby boosting his total debt to almost $11 billion (yearly carrying costs over $1 billion!). But retail sales have slowed and Campeau is squeezed. Since the takeover (in order to reduce debt) Campeau has sold Filene's, Foley's, I. Magnin's, Bullock's, and Ann Taylor. Campeau had said the main reason he took over Federated was to obtain the fabled Bloomingdale's chain. But two weeks ago Campeau put Bloomingdale's up for sale. So far, 5,000 jobs have been lost in Campeau's massive ego trip. And despite the cost-cutting, Federated lost $206 million in this year's first half while Allied lost almost $100 million. Likely winners: the three Reichmann brothers of Canada (Olympia and York) who are about to loan Campeau $250 million while at the same time moving toward control of the whole Campeau "empire." You might say, "Money talks while junk walks."

* *

Part of the new Resolution Bonds (to bail out the S&Ls) will almost surely be in zero form. My objections to zeros are: (1) they are "immoral" in that they are the ultimate example of putting off the pain until later; (2) in the case of lower-quality zero bonds, you buy 'em now and hope the issuer is still around at payoff time; and (3) finally, most people aren't aware of the tremendous volatility in zero bonds triggered if interest rates rise or fall. Below is a table put out by Salomon Bros. Study it carefully.

## How Zeros' Prices Can Gyrate

| | WHEN BONDS MATURE | | | |
|---|---|---|---|---|
| | 5 YEARS | 10 YEARS | 20 YEARS | 30 YEARS |
| To get $1,000 at maturity on zero-coupon bond yielding 8%, investor pays: | $675.56 | $456.39 | $208.29 | $95.06 |
| If rates fall to 7%, zero's value rises to: | $708.92 (+5%) | $502.57 (+10%) | $252.57 (+21%) | $126.93 (+33%) |
| If rates rise to 9%, zero's value falls to: | $643.93 (-5%) | $414.64 (-9%) | $171.93 (-17%) | $71.29 (-25%) |

* *

In San Diego we have "Club DRIP." That stands for "Don't reelect incumbent politicians." Here are the disgraceful figures -- of the 408 House members who ran last November, 402 won. Being a politician in the US is like having a lifetime job. It's disgusting. And our federal deficits attest to that.

* *

Back in the 1960s the wry joke was that "violence is as American as apple pie." The violence of the '60s seems like peace compared with what's happening today. You don't believe it? Then try digesting these statistics. In the first seven months of 1989 in South-Central Los Angeles, there were 237 homicides, 413 (reported) rapes, 5,864 robberies, and 9,068 aggravated assaults. Thirty-five of the homicide victims were under the age of 18. During last Labor-day weekend (three days) in LA there were 14 killings.

* *

The US Postal Service now reports that next year it will suffer its worst deficit ever -- $1.5 billion. Most of the deficit will come from labor costs (which could be cut drastically by contracting out some of the routes, a policy which the PO refuses to do). So the PO follows the time-honored way -- they raise the rates. Look for 30 to 32 cents first-class mail coming up. And look for FAX machines to slowly put the PO out of business.

* *

As a guy who grew up in NYC, I now find it a lot pleasanter and easier to read about Gotham than to live there. How do I keep up with the City? I read the *New York Times, W, Women's Wear Daily, New York Magazine, Crain's New York Business,* and a most interesting new magazine entitled *7 Days* (36 Cooper Square, NYC 10003). Would somebody please be kind enough to send me a copy of *Avenue*? I hear it's well worth reading. As you can see, I'm obviously still fascinated with NYC. If you don't know what's happening in NYC, you don't know what's happening. It's as simple as that.

* *

*Business Week* (Sept. 11) finally got a bit queasy about the LBO and junk bond business. Their cover screams in big black print, "Crunch Time, No Recession, Lower Interest Rates. So why are many highly leveraged companies suddenly in trouble?" Hey, even I know the answer to that one -- too much debt and not enough profits to cover the carrying costs.

*BW* then offers an abbreviated list of companies whose bonds sell for a fraction of their issuing price and whose yields are up in the stratosphere (assuming they can pay off, which is doubtful). Samples: Bond Brewing Holding, bonds selling for $360 and yielding 35%; Gillett Holdings, bonds selling for $600 and yielding 23%; Leaseway Transportation, bonds selling for 500 and yielding 13%; United Merchants and Manufacturers, bonds selling for 400 and yielding 34%. And no, I don't recommend buying these babies. Remember Russell's prime investment rule, "First, lose no money."

* *

*Gann Angles* (3315 Martin Rd, Carmel, CA 93923), in their latest report, includes a paragraph worth repeating. Anyone who's worked with time cycles will recognize the meaning of these words: "When you study a chart of the current market, with no knowledge of Time, nothing is easier to predict than a continuing Trend and ever higher prices. The Trend is your friend. The Transports are runaway, all the Averages have taken out their 1987 highs now (except one), and it looks like clear sailing indefinitely. Anyone who has traded a Soybean bull market knows this set of conditions intimately. Then, something happens on the way to 'Beans in their Teens,' the market suddenly reverses, falls precipitously -- and it's over. No momentous news, no startling new fundamentals and most important of all, no warning bell rings to tell you that it's over. How does it happen? The culprit is Time. To quote W.D. Gann, 'When Time runs out, the move is over.' And that's where we are now. Time is running out." Russell comment: Time may or may not be running out but it's a fascinating description. I still find price and time cycles awfully difficult to draw conclusions from. I've learned that it's easier and more accurate to identify major turns that it is to predict them. That's what my PTI does. It doesn't predict a thing. But it does identify the turns and the trend.

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What are the world's most widely spoken languages? No. 1 is Mandarin Chinese spoken by 825 million, 2 is English spoken by 431 million, 3 is Hindi with 325 million, 4 is Spanish at 320 million, and 5 is Russian at 289 million.

* *

The US fiscal year ends this month. As things stand, Congress will have to cut $16 billion from the budget to meet Gramm-Rudmann. So get ready for a lot of fiscal magic, lies, and cover-ups. And next year -- it looks as if $65 billion will have to be cut from the budget. Politically, that's next to impossible, so it should be quite a show -- particularly in view of the S&L bailout costs plus the cost of the "new" anti-drug program.

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Speaking of drugs the *NY Times* reports that $100 billion in cocaine money alone is being sent out of the US every year. That figure is almost as large as the total US trade deficit!

* *

More on drugs: Here's what the London *Economist* (Sept. 2) thinks about the picture: "Drugs are dangerous. So is the illegality that surrounds them. . . . Only the Dutch have had the courage to break away, treating different drugs differently and selectively applying social and medical remedies rather than criminal. Holland is permissive; yet few of its youngsters die of drug abuse and hardly any get AIDS from infected needles. Drug-related crime is under control.

"Legalizing the drug trade would be risky. Prohibition is worse than risky. It is a proven failure, a danger in its own right. The *Economist* advocates its replacement with more effective restrictions on the spread of drugs. In summary, we want to legalize, control and strongly discourage the use of them. Give it 20 years, while today's drug squads turn their energies to things that actually do some good like helping little old ladies cross the street."

I agree. I see the Bush "plan" as totally unworkable and unbelievably expensive. So we build $10 billion in new penetentiaries. We spend billions more in keeping thousands of druggies in prison. We expand the local police forces. We bring in the military. We arrest every dealer and runner and spotter and user. We tie up the courts and the jails. We still haven't attacked the problem -- which is that 22 million Americans buy and use drugs. The law enforcement approach is doomed to failure. The drug empires and the drug networks are the symptom. The problem is the users and the social conditions and mind-set that makes the US the drug-consuming center of the world.

* *

Note: Since 1980 the penetentiary population of the US has doubled. Over the last seven months, 46,000 have been sent to the penetentiaries, up 7.7%, the biggest boost since 1925. Cost to keep each inmate -- over $20,000. Tuition and board cost to go to Harvard -- $17,500.

* *

Here's the latest list of the world's largest banks. Times have changed -- of the top 20 only one is American.

* *

**The world's 20 largest banking companies**

*Ranked according to assets. Assets for Japanese banks are as of March 31, 1989, the end of the Japanese fiscal 1988 year. All others are as of Dec. 31, 1988.*

| | Assets in millions | Prior-year rank |
|---|---|---|
| 1. Dai-Ichi Kangyo Bank Ltd., Tokyo | $386,937 | 1 |
| 2. Sumitomo Bank Ltd., Osaka | 376,088 | 2 |
| 3. Fuji Bank Ltd., Tokyo | 364,044 | 3 |
| 4. Sanwa Bank Ltd., Osaka | 348,358 | 5 |
| 5. Mitsubishi Bank Ltd., Tokyo | 343,593 | 4 |
| 6. Industrial Bank of Japan, Tokyo | 257,578 | 6 |
| 7. Norinchukin Bank, Tokyo | 241,947 | 7 |
| 8. Tokai Bank Ltd., Nagoya | 225,121 | 9 |
| 9. Mitsui Bank Ltd., Tokyo | 219,666 | 11 |
| 10. Mitsubishi Trust & Banking Corp | 210,466 | 12 |
| 11. Credit Agricole Mutuel, Paris | 207,988 | 8 |
| 12. Citicorp, New York | 203,827 | 10 |
| 13. Sumitomo Trust & Banking, Osaka | 196,589 | 14 |
| 14. Banque Nationale de Paris | 194,516 | 13 |
| 15. Barclays Plc, London | 189,198 | 19 |
| 16. Mitsui Trust & Banking Co., Tokyo | 183,873 | 15 |
| 17. National Westminster Bank, London | 178,345 | 21 |
| 18. Credit Lyonnais, Paris | 176,663 | 17 |
| 19. Taiyo Kobe Bank Ltd., Kobe | 173,670 | 20 |
| 20. Bank of Tokyo Ltd. | 173,575 | 24 |

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The US current account deficit grew to $31 billion in the 2nd quarter. What was interesting was that the service sector of the deficit posted a $176 million deficit, the first service sector deficit since 1958. Up to now the service sector (advertising, insurance, banking, consulting, education) has been a major strength of the US economy. Thus, the US' interest rate bill continues to rise as we borrow more and more from our overseas creditors.

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If you're thinking of buying an automobile dealership, think carefully. Of the 25,000 dealerships in the nation, half are now breaking even or losing money. Industry analysts believe that a major weeding out is coming with perhaps one-third to one-half of today's dealers closing shop before it's all over.

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Retail notes: Sam Walton is often called "the richest man in America." His Wal-Mart stores (hard to believe) are expected to pass Sears and K-Mart next year to become the nation's largest retailer! Walton is also in the process of opening monster discount-type stores called Sam's, thereby competing with the Price Club.

Since 1980 these four states have led in percentage of population growth: Nevada (up 31.7%), Alaska, Arizona, and Florida. Two of the four, Nevada and Florida, boast NO state income tax. Of the 15 fastest-growing counties in the nation, four are in Florida, four are in Georgia, and three are in Texas (Florida and Texas are NO state income tax states and Georgia boasts a warm climate and reasonable prices for real estate).

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I have one complaint about San Francisco. Despite its reputation for fine food, I've never had a great meal there (nothing compared with the top NY restaurants). In fact, the best meals that I've had in SF have been in its Chinatown. But that's changed. Last time Faye and I visited San Francisco we ate at Wolfgang Puck's new Postrio's. Superb dinner, exciting atmosphere, even the bread was great. Locals in SF must agree -- there's a six week wait for reservations (although there's no problem if you go for breakfast or lunch). If you can't get to Postrio's, try the Pot Sticker in Chinatown. Mmmmmm.

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Don't miss the S&L story ("The $100 Billion Fiasco") in the Sept. 11 *Barron's*. One shocking observation: The S&L assets that will eventually have to be disposed of could run as high as (are you ready for this?) $900 billion --that's 900 billion. It's the greatest financial fiasco in US history.

* *

Congratulations: San Diego is now known as the methamphetamine capital of the world. When meth is doctored it is known as "crank." The advantage of increasingly popular crank is that it doesn't have to be imported from S. America, unlike cocaine -- the boys make it right here out of good old American chemicals.

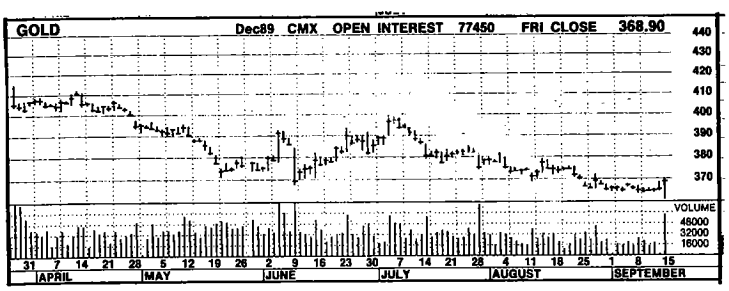
* *

A few days ago I watched the PBS hour-long program on the great French designer, Chanel. The documentary showed women's styles of the early 1900s. At that time women wore huge hats and tight clothes made up of masssive folds of cloth. In fact, so ungainly were women's high-styled clothes that men or attendants actually had to help the women when they stepped off a curb or attempted to climb a few stairs.

The day of the fragile, helpless female is about over. I have long been a feminist, and I have wondered why it is or how it is that women have allowed men to dictate to them and lord it over them. In other words, why have women, since the beginning of time, gone along with male chauvinism? Note: Japanese women are finally coming into the 20th century -- and fast. I believe this new phenomenon is going to bring about a huge change in what has for centuries been an oppressive and depressing culture for women.

I joined a gym a few months ago, and I am continually awed by the strength and staying power of the many women who work out at the gym. Frankly, these women engage in exercises that wear out most men (for instance, the aerobic classes are about 80% women, and I often see men staggering out of class while the women keep going).

**GOLD**: Not much happening here except that the metal continues to hold around 360 despite bad-mouthing from almost all the analysts that I read (and I read a lot of them). (Gold chart below is courtesy of *Investor's Daily*.)




**NEXT MAILING: Wednesday, Oct. 4**

I do, however, get requests from readers for good gold stocks. Here's a trio that probably represents about as good a "collection" as any. They are: American Barrick (NYSE), the best growth gold share of any N. American; Hemlo Gold (Toronto SE), the lowest cost producer in Canada ($115 per ounce); and Placer Dome (NYSE), Canada's largest producer with the best leverage when gold is above $400 per ounce. (With thanks to Canada's fine publication, *Investor's Digest*, 777 Bay St., Toronto, Ontario M5G 2E4 for the above info).

My old friend, commodity expert R.E. McMasters (*The Reaper*, PO Box 84901, Phoenix, AZ 85071), has this to say about gold futures in his latest report: "Gold stocks continue their bullish divergence. The precious metals' psychology is excessively bearish. There is no trading interest in these metal markets at present. This is the type of situation which arises normally at a buying low. . . . We will continue to wait for the futures market to confirm a gold buy signal by stopping us into a futures trade. Therefore futures investors may buy December gold on a strong close above $368, using a $364 open protective stop. Look for a test of $380 minimum and then $400 once this buy signal is triggered." Well, then, that's the word from the Texas maven. We'll be waiting R.E.

Here's an interesting and informative aside. Currently, salvagers are working off the S. Carolina coast recovering gold booty from a steamship that sank in a hurricane 132 years ago (425 people died in the disaster). The ship was carrying the regular monthly shipment of gold (three tons of it) from the San Francisco mint to NY via Panama.

Now here's how gold has appreciated vs. the dollar over the years. That shipment of three tons of gold was valued at the time at $1.2 million, based on gold in 1857 at 90 cents an ounce (that's right 90 cents an ounce). Today that three tons of gold at today's price of $360 an ounce is estimated to be worth $450 billion. It's part of the single largest American salvage treasure of all time.

Gold at 90 cents in 1857. Gold at $360 today. Shows what happens to paper money. And it shows that gold is still a great store of value. All you need is patience -- and politicians destroying the dollar's purchasing power with deficits.

**LATE NOTES:** This may just be a straw in the wind but last Friday was the second week in a row that both the A-D ratio and my PTI closed down for the week. These two haven't closed down two weeks in a row since last November. If and when my 5-day average of daily new lows moves above the 5-day average of new highs, the real downside pressure will begin. We're not quite there yet.

**LATE** developments in the junk bond picture: It looks as if Robert Campeau is going to lose control of his retailing empire via a $250 million loan from Olympia & York, being negotiated at this writing. The Reichmanns (they control Olympia) have little experience in retailing, so if they take over Campeau it would not be surprising to see them sell the Campeau retail collection off piece by piece.

Meanwhile, Merv Griffin is having major troubles with his Resorts International. Merv has debts of almost $1 billion on the gambling empire. His interest carrying costs are $130 million a year, almost twice his cash flow. He needs to "restructure," possibly through Chapter 11, and it is possible that in doing so he will lose control of Resorts. It's a classic tale of a man who is successful in one thing (in this case entertainment) jumping into something else he knows nothing about. In the end he gains a lot of experience and loses a lot of money. A fair trade? Ask Merv.

Speaking of entertainers, here are the top money people for 1988 and 1989 (both years): Michael Jackson made $125 million; Steven Spielberg $105 million; Bill Cosby $95 million; Mike Tyson $71 million; "Peanuts" cartoonist Charles Schulz $60 million; Eddie Murphy $57 million; Pink Floyd rock band $56 million; Oprah Winfrey $55 million; and singer George Michael $47 million. But it ain't all that easy. Actors Equity (the acting union) has about the highest unemployment rate of any union in the nation.